DECEMBER 30, 1985 THREE DOLLARS

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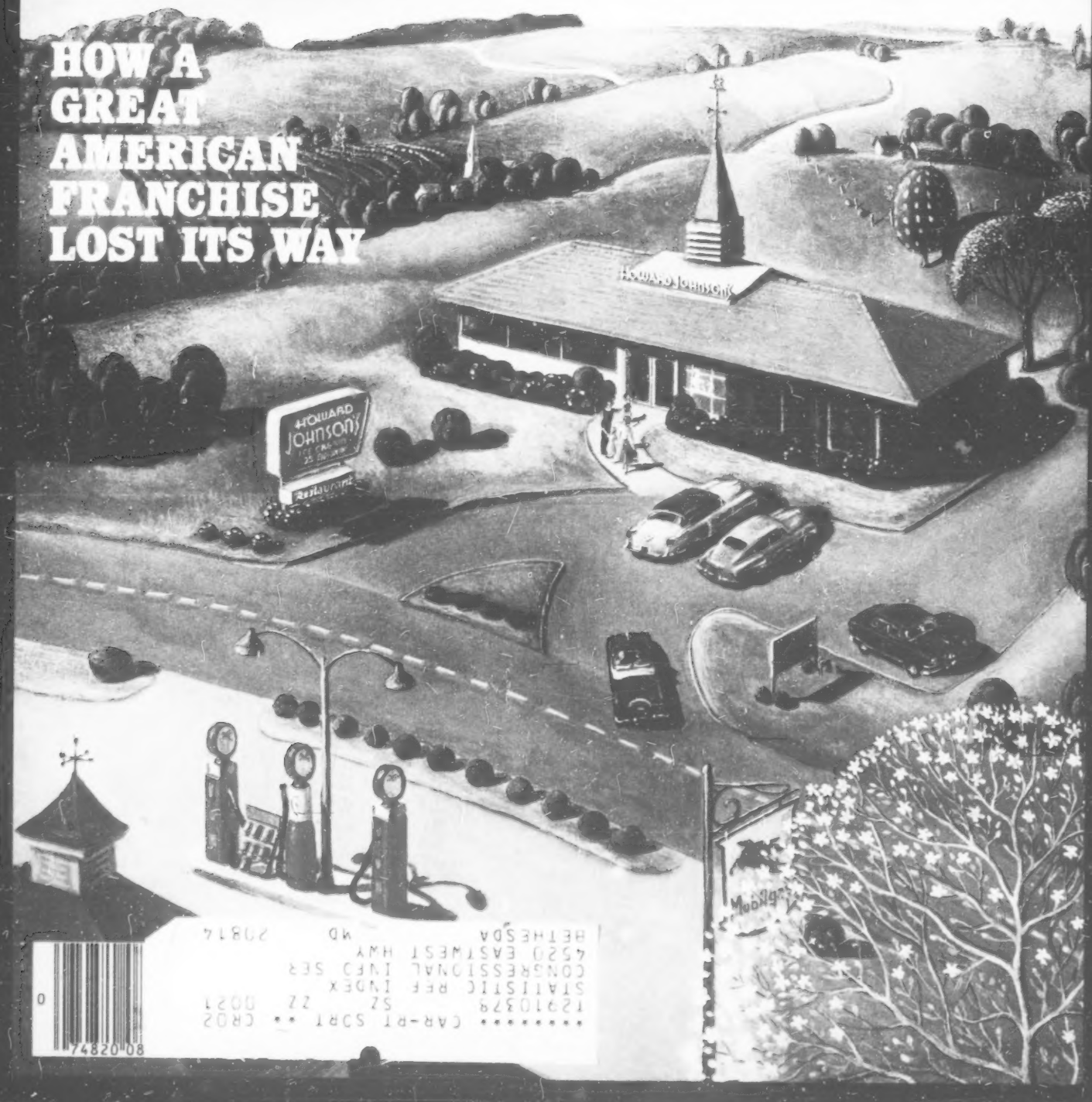
Forbes

BRAND NAME INDUSTRIES

HOW A GREAT AMERICAN FRANCHISE LOST ITS WAY



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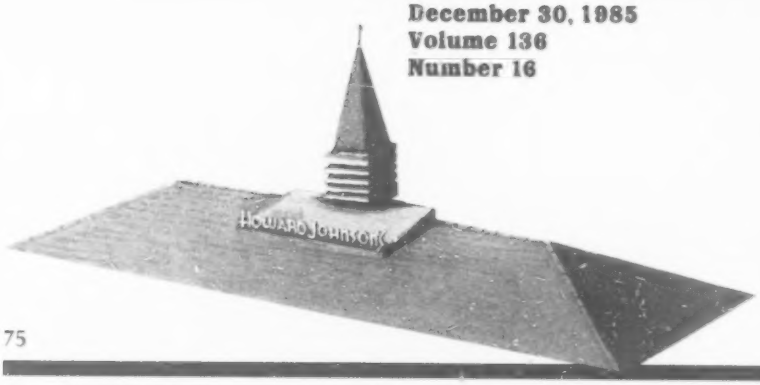
Forbes

December 30, 1985
Volume 136
Number 16



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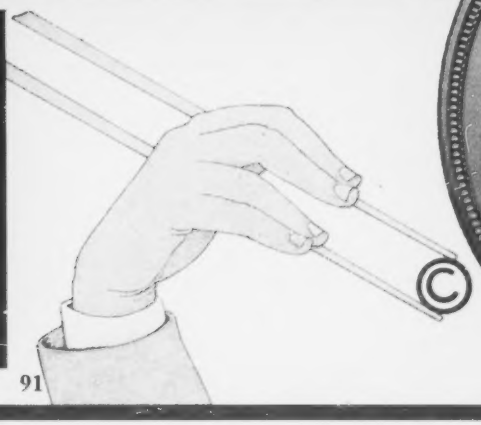

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December 30, 1985 Volume 136 Number 16 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April, two weeks in September and two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $42 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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Cover illustration by Kinuko Y. Craft

were almost covered by gains abroad. Overseas sales had nearly doubled in a year, thanks to the Frankfurt outlet.

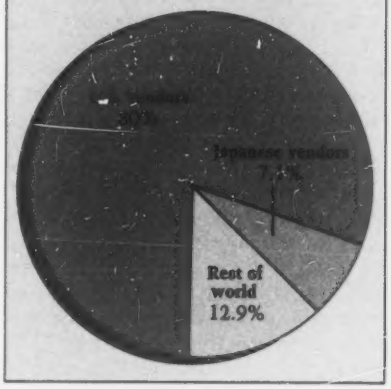
The members of the board

Small companies once regularly filled their boards of directors with the chairman's relatives and cronies. No more. Outside paid directors, including those from related industries and professors from business and technical schools, now account for two of the five directors on the average small-company board, says a survey of 31,000 small and medium-size firms by Growth Resources Inc. of Peabody, Mass. Another shift: 60% of the firms now pay their board members. Average compensation is up 9.3% this year—to $534 for meeting fees and $3,560 for annual retainers. Also, 7% offer stock options to give the outsiders an interest in the firm.

Japan moves up

Japanese data processing companies have the U.S. industry looking nervously over its shoulder. How close are the Japanese? Not very, but they are moving up. A world survey by the Gartner Group, the Stamford, Conn. research company that tracks the industry, shows that as 1985 opened the U.S. still had an overwhelming 80% of the $140 billion world data processing market. The Japanese had 7.1%, and the rest of the world 12.9%. Still, Gartner points out, the 76% market share of the top 100 U.S. firms has been slowly shrinking for six years, and Japanese vendors, especially Fujitsu, Hitachi and Nippon Electric, have been filling the gap. Moreover, the study notes, the capital structure of Japan's industry lets its firms operate at far lower profit margins than their American rivals, many of which are already feeling a profit squeeze. The typical Japanese company has 80% debt (and low-cost debt at that) and 20% shareholder equity. With low interest rates and less pressure to pay dividends, Japan has a distinct advantage.

Worldwide data processing revenues



The future on tape

Videotapes may be the corporate communications tool of tomorrow, says Anett Grant, president of Executive Speaking, Inc., a Minneapolis-based communications training agency, but not many executives seem to know what to do with them. Surveying the brass at 60 large companies, her firm found that 89% use videotapes to communicate to senior management or employees, 84% have put their chairman or president on camera, and 80% use video to describe company policies to new employees. Some 59% produce and distribute regular employee video programs, and only 2% see video as overrated and unnecessary. The medium is already so important, Grant says, that the Pentagon is beginning to require video presentations from defense contractors making bids. By

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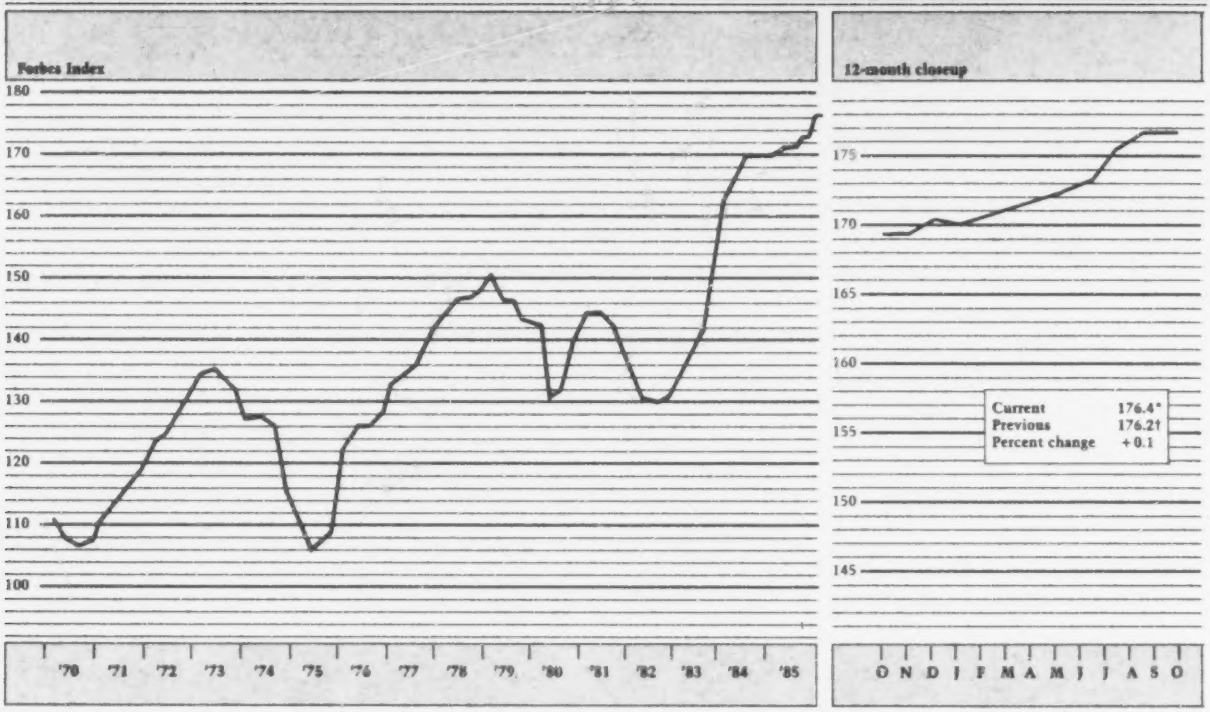
The Forbes Index



*preliminary †revised

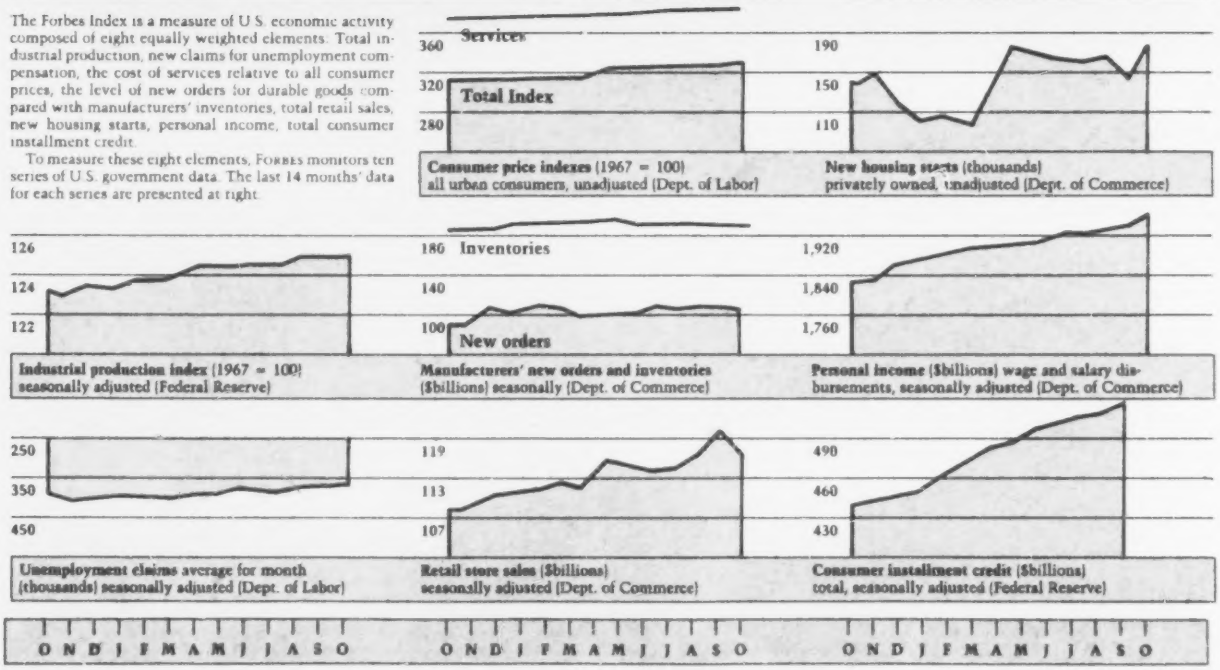
Growing pains. For all Wall Street's evident enthusiasm, the Forbes Index shows that there may be a lag before business moves into high gear next year. For starters, the falling dollar won't help exports right away. In the meantime, competition from abroad is still squeezing sales, profits and inventories. Manufacturers' inventories, declining steadily since June, reached their lowest level since September 1984. Manufacturers' new orders fell 2% from the previous month.

When retail sales are reported for the final months of 1985, however, they may balance some of the weakness in other Forbes Index components. Christmas business has been good, and the new sales incentives on U.S. autos should prop up sales. Pray for good weather.

The Forbes Index Components

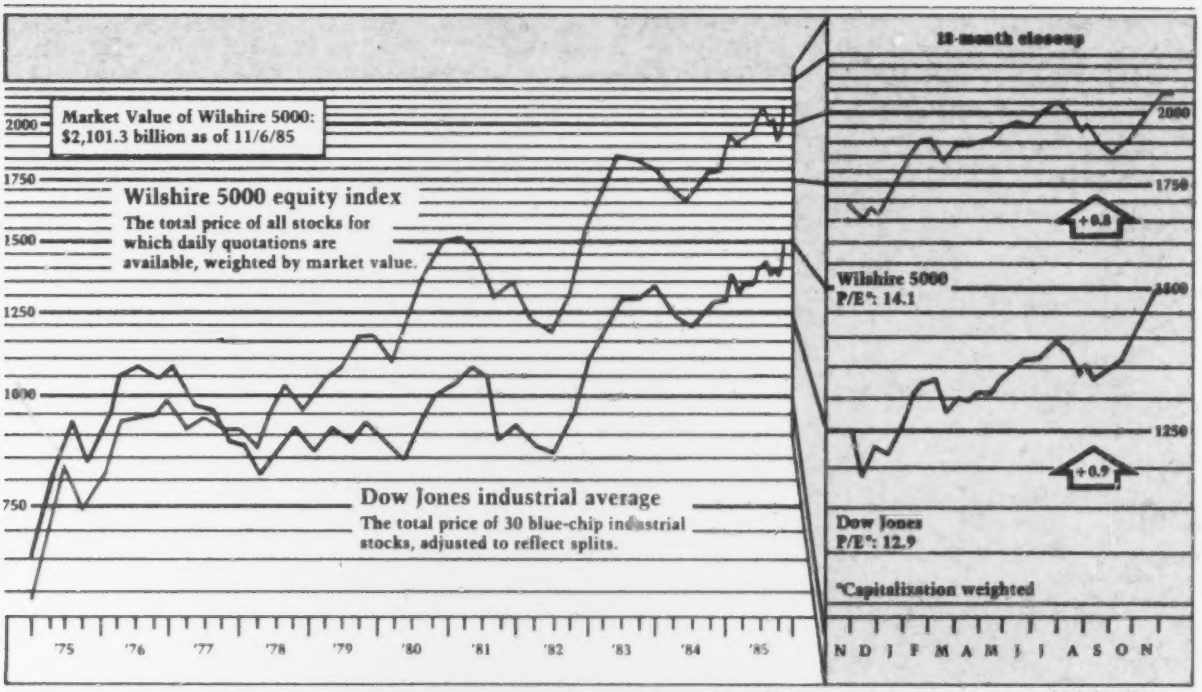
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Shooting fish in a barrel? It seemed hard not to make money in common stocks lately no matter where it was invested. (Hard, but not impossible. *See p. 118.*) Since mid-September the Wilshire index of nearly 5,500 stocks has gained 11.7% and added some $218 billion in market capitalization. With the weakening dollar, low inflation levels and the prospects for rising profits next year, Wall Street raised the bid on the Wilshire up to 14.1 times latest 12-month earnings. Last September it was 11.1. A year ago the Wilshire P/E was 10.6. Price/earnings ratios on the Dow and the Forbes Sales 500 have moved in line with the Wilshire index. Leadership has gone from the blue-chip to the secondary issues.

While most of the market rejoiced over the prospect of cheaper energy costs and lower inflation, the oils were sold off. It was no secret that OPEC was losing its grip. Some investors evidently gambled that the cartel might still be able to discipline production. They lost their bet.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.7	4.5	5.2	4.5	3.9	5.5
in last 52 weeks	26.4	27.8	27.0	25.1	20.2	32.5

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.3	4.7	8.0	2.7	5.7	4.9	3.0	5.7	8.9	4.9	5.3	2.4
in last 52 weeks	28.4	32.8	52.2	33.2	30.1	33.6	26.9	45.3	52.1	33.3	38.7	20.3

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

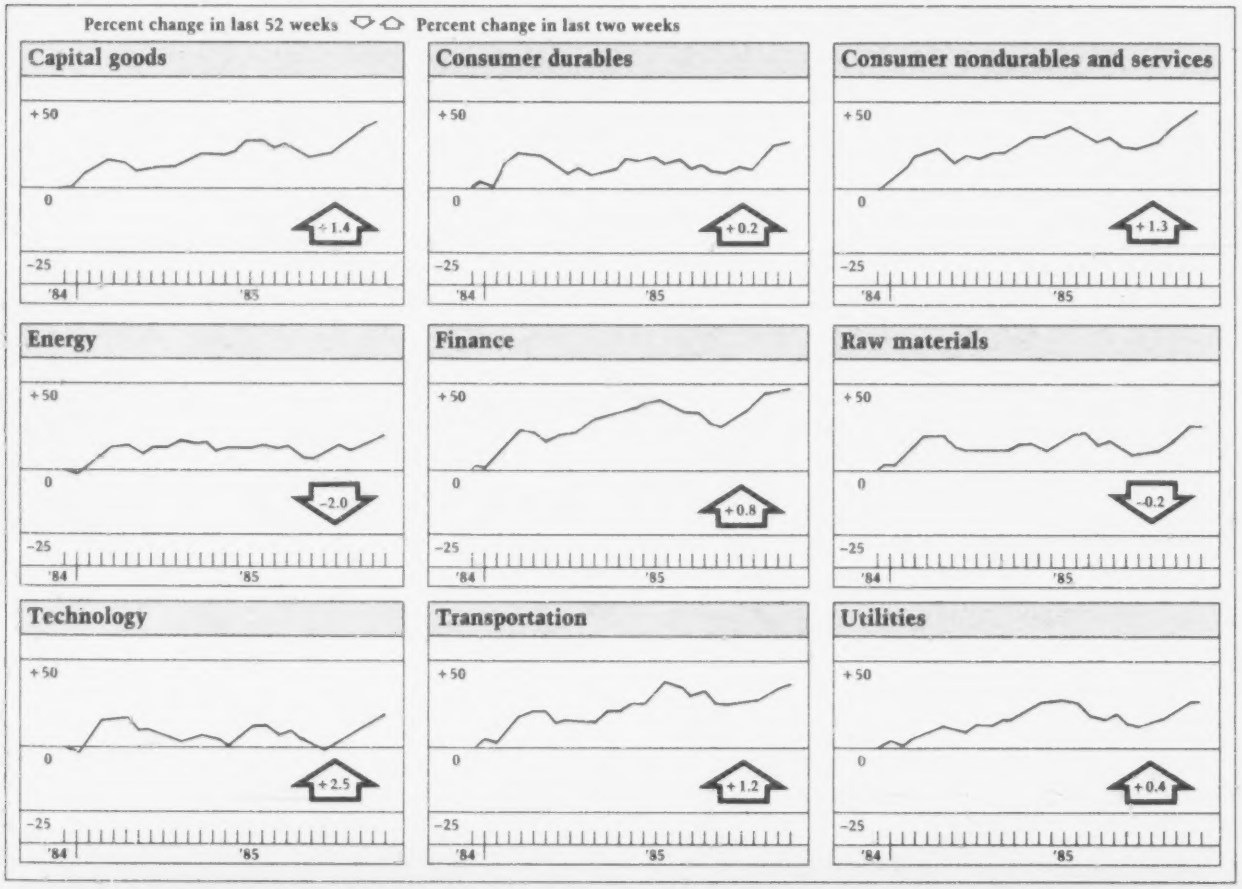
Note: All data for periods ending 12/6/85. Prepared by Wilshire Associates, Santa Monica, Calif.

Gus Fetsch

Where The Action Is

Small company, big impact. Genentech, which rose over 13 points to 71¾ in the last two weeks, was the performance star of the consumer nondurables sector. The latest jump increased the firm's market capitalization by some $221 million, to almost $1.2 billion. Not bad for a startup company that had only $65.6 million in revenues in its last fiscal year and earned but $2.7 million (26 cents per share) in the most recent 12 months.

The technology group—propelled by Telex, Advanced Micro Devices and Data General—scored the best price gains over the two- and four-week periods, while both the raw materials and energy sectors lost ground. McDermott International was the weakest of the oils, off 10%, followed by Mitchell Energy & Development, down 9.4%.



What The Analysts Think

Has it bottomed yet? With the market awash in tin, copper and other base metals, and with even gold and timber selling at depressed prices, Wall Street is not optimistic about the earnings prospects for many firms in the raw materials sector. This group had the sharpest cuts in 1985 estimates during the last two weeks.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.21	13.1
1985 estimates	3.66	11.4
1986 estimates	4.29	9.8

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Consumer durables	4.96	8.8	-0.20	-0.35
2	Finance	3.09	11.5	-0.26	-0.57
3	Utilities	3.45	8.5	-0.29	-0.45
4	Consumer nondurables	2.31	14.5	-0.43	-1.63
5	Energy	3.45	8.8	-0.93	-1.39
6	Capital goods	2.40	14.3	-1.63	-2.94
7	Technology	2.47	15.5	-1.76	-3.86
8	Transportation	2.16	12.9	-3.08	-5.99
9	Raw materials	1.71	15.9	-3.43	-5.68

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 12/6/85. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.